

**2006-2007
MID-YEAR BUDGET REVIEW
Section I**

STATUS OF GENERAL FUND REVENUES

Overview

Current Year Performance

On an overall basis, General Fund revenue collections through the first six months of the year are tracking higher than expected and should end the year above the 2006-2007 Adopted Budget estimates. This stronger performance reflects the higher than estimated collections in 2005-2006 and continued strength through 2006-2007 in many of the City's major revenue categories.

The higher collections are spread through the majority of revenue categories rather than concentrated in one or two areas. The revenue categories that are currently projected to exceed the budget estimates include Property Tax, Sales Tax, Transient Occupancy Tax, Fines, Forfeitures and Penalties, Business Tax, Cardroom Tax, Use of Money and Property, Revenue from the State, Other Revenue, and Overhead Reimbursements. Both economically sensitive and non-economically sensitive categories are represented on this list. A description of the performance in each of these categories is included in this section.

With the stronger overall revenue performance and the availability of additional grants or reimbursement proceeds, upward revenue estimate adjustments of \$12.3 million are recommended in this document. Of this amount, \$8.6 million consists of new grant and reimbursement revenue that would be used to fund associated activities. The remaining \$3.7

million of the higher current year collections would be used to fund expenditure needs identified in this Mid-Year document.

If current collection trends continue, it is anticipated that over \$20 million in revenue over the budgeted estimates will be available by year-end. It should be noted, however, that this higher collection level is basically unchanged from the collection level assumed in the development of the 2008-2012 Preliminary General Fund Forecast that was issued in November 2006. This Forecast assumed that \$25 million would be available at the end of 2006-2007 from a combination of excess revenues and expenditure savings for use in 2007-2008.

Comparison to Prior Year

General Fund revenues and transfers through December totaled \$296.4 million, or 38.6% of budgeted estimate. This amount was \$26.0 million, or 9.6%, above the amount received last year at this time. A significant portion of this growth, however, is the result of timing differences between collections in the two years. For example, amounts for Property Tax that were booked in December in 2006-2007 were not booked until January in 2005-2006. After taking these timing differences into account, however, we project that a number of the revenue categories are running ahead of both the prior year and the current budgeted estimates.

2006-2007

MID-YEAR BUDGET REVIEW

Section I

STATUS OF GENERAL FUND REVENUES
(CONT'D.)

Overview (Cont'd.)

Recommended Adjustments

City Council actions are recommended to: (1) account for additional new revenue of \$8.6 million from grant programs and reimbursement for services, available to fund additional related expenditures; (2) increase several revenue estimates by \$3.7 million, based on year-end anticipated collection levels; and (3) adjust the Beginning Fund Balance downward by \$75,000 to reconcile with the final amount included in the 2005-2006 Comprehensive Annual Financial Report (CAFR).

The overall impacts of the recommended actions in the General Fund are summarized in the following chart:

Category	\$ in millions
Other Revenue	\$ 4.88
Transfers and Reimbursements	4.59
Revenue from the Federal Government	1.15
Revenue from Local Agencies	.82
Revenue from the State of California	.32
Use of Money and Property	.30
Departmental Charges	.21
Sales Tax	.07
Beginning Fund Balance	<u>(.08)</u>
Total	<u>\$ 12.26</u>

New revenue totaling \$8.6 million from various grants and reimbursements are recommended in this document. This category includes \$3.75 million of funding in Other Revenue from Comcast as part of the franchise agreement and a litigation settlement; an increase of \$1.6 million to the Transfers and Reimbursement

category to reflect the increase in the Airport reimbursement for Police overtime associated with the "Orange Alert" level at the Airport; and an increase of \$1.1 million for the 2006 Super Urban Area Security Initiative (UASI) grant.

The largest adjustments to the current revenue estimates include: an increase of \$3.1 million to the Transfers and Reimbursements category to reflect overhead payments from various special funds based on the final overhead rates for 2006-2007 (that were not known at the time of adoption of the 2006-2007 budget), and an increase of \$304,000 to the Use of Money and Property category to reflect higher than anticipated interest earnings.

If collections were to continue at current rates, it is anticipated that additional upward adjustments could be possible by year-end. If so, these actions will be brought forward for Council consideration at the end of the year. The current collection trends will be factored into the final 2008-2012 General Fund Forecast scheduled to be released in February 2007.

The following discussion highlights overall General Fund activities through December by revenue category.

2006-2007
MID-YEAR BUDGET REVIEW
Section I

STATUS OF GENERAL FUND REVENUES
(CONT'D.)

PROPERTY TAX

Revenue Status				
2006-2007		2005-2006		2006-2007
<u>Budget Estimate</u>	<u>Y.T.D. Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$183,914,000	\$53,662,644	29.2%	16.5%	\$0

The Property Tax category consists of Secured Property Tax, Unsecured Property Tax, SB 813 Property Tax (retroactive collections back to the point of sale for reassessments of value due to property resale); and Homeowners Property Tax Relief.

The 2006-2007 **Current Secured Property Tax** budget estimate is \$167.8 million. Through December, actual Current Secured Property Tax collections of \$42.7 million were significantly higher than the prior year collection level of \$16.5 million. This is, however, primarily the result of a timing issue related to the booking of Property Tax receipts last year, when compared to the current year.

Based on information from the County of Santa Clara Controller-Treasurer's Office, the Secured Property Tax roll is expected to reach \$168.7 million, which is \$900,000 (less than 1%) above the 2006-2007 Modified Budget of \$167.8 million.

The 2006-2007 **Current and Prior Unsecured Property Taxes** budget estimate is \$10.2 million, which is virtually unchanged from the actual collections in 2005-2006. The largest

payment for the Unsecured Property Tax category is received in October of each year. Based on these receipts, it is anticipated that collections in this category will exceed the budget estimate of \$10.2 million by approximately \$500,000, reflecting growth of 4.3%.

Year-to-date **Current SB 813 Property Tax** receipts (retroactive collections back to the point of sale for reassessments of value due to property resales) of \$1.4 million are approximately 13% below the prior year level of \$1.6 million. A significant drop-off in this category was, however, anticipated when the 2006-2007 Adopted Budget was developed based on the assumption that real estate sales would slow significantly. Receipts can, in fact, fall 48% from the high of \$10.1 million collected in 2005-2006 and still meet the 2006-2007 budget estimate of \$4.8 million in this category.

2006-2007
MID-YEAR BUDGET REVIEW
Section I

STATUS OF GENERAL FUND REVENUES
(CONT'D.)

SALES TAX

Revenue Status				
2006-2007		2005-2006		2006-2007
<u>Budget Estimate</u>	<u>Y.T.D. Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$144,008,000	\$37,615,828	26.1%	26.7%	\$66,000

The Sales Tax category consists of General Sales Tax and Proposition 172 Sales Tax. As discussed in the October Monthly Financial Report (MFR), the receipts for the first quarter of **General Sales Tax** for the current year were received in December. These receipts represented activity for July through September, and in total were down 9% from the same quarter in the prior year.

Based on discussions with the State Board of Equalization, however, appears to reflect a large, one-time correction that the City had been anticipating. Factoring out that one-time adjustment, growth was essentially flat. This performance is actually better than it may appear given that the most recent quarter is being compared to the first quarter of last year that experienced growth of over 14%. The high growth in that prior year quarter was overstated due to a glitch with the State Board of Equalization that caused some sales tax returns that should have been processed in the previous quarter to be processed in that quarter.

Additional data on the performance in the first quarter of 2006-2007 has also been received from the City's Sales Tax consultant, MBIA

MuniServices Company. This data showed essentially no change (down less than 1%) on an economic basis when compared to the same quarter in the prior year. The economic growth data is considered to a more accurate measure of the actual sales tax activity in San José for a particular period. This growth analysis measures sales tax receipts, excluding state and county pools and adjusts for anomalies, payments to prior periods, and late payments.

On an economic basis, the flat performance in the most recent quarter was the result of a decline of 4.3% in the Business to Business sector, offset by slight growth of 0.1% in the General Retail category, 0.6% in Transportation, and 2.3% in Construction, and 2.8% in Food Products. In this most recent quarter, General Retail remained the largest sector in San José representing 26.6% of the sales tax activity, followed by Business to Business (24.2%), Transportation (23.8%), Food Products (13.9%), Construction (10.9%), and Miscellaneous (0.6%).

When comparing San José's cash receipts to those of other jurisdictions, San José's decrease of 9% was worse than the performance of Santa

2006-2007
MID-YEAR BUDGET REVIEW
Section I

STATUS OF GENERAL FUND REVENUES
(CONT'D.)

SALES TAX
(CONT'D.)

Clara County (down 0.7%), Northern California (down 0.1%) and the State as a whole (up 0.8%).

It should also be noted that Sales Tax payments continue to be heavily impacted by State actions. In March 2005, voters approved Proposition 57, the California Economic Recovery Bond Act, which allowed the State to purchase bonds to reduce the State budget deficit. One aspect of the bond measure, referred to as the "triple flip", is a very complex set of transactions which involve suspending one-quarter of the Bradley-Burns Sales and Use Tax and replacing the lost revenues with funds set aside from countywide property tax revenues. This change will remain in effect until the State's bond obligations have been satisfied. As a result, the City has been receiving reduced (down 25%) Sales Tax receipts each month. Under the provisions of the State Budget action, the reduced amounts are offset by payments made twice a year, from property tax receipts (usually in January and May). The City will, however, continue to record the replacement property tax revenues as Sales Tax receipts as the growth formula for these receipts is tied to Sales Tax and this action is considered a temporary situation.

As the payments made by the State in January and May are intended to reflect the entire fiscal year amount, the payments are based on estimates. In September, after the fiscal year ends, the State reviews the actual receipts for the fiscal year and any difference between the

estimated payments and the actual amount due is supposed to be trued-up by an addition to, or subtraction from, the next January payment. For San José, the State's calculation of the true-up amount for 2005-2006 will result in a positive payment to San José of \$870,000. In addition, the State provided information of the two payments it will make in 2006-2007. These payments were higher than originally anticipated when the 2006-2007 budget was developed.

In summary, we still anticipate that the 2006-2007 budget estimate of \$139.6 million should at least be met by year-end, even though receipts dropped 9% in the first quarter. With the strong performance in 2005-2006, the one-time funds available this year associated with the 2005-2006 accrual, and a higher than anticipated payment from the State associated with the "triple-flip", the budget estimate would still be met even if no growth was experienced for the remainder of the year. If receipts average a 3% increase over the remainder of the year, on the other hand, the budgeted estimate of \$139.6 million would be exceeded by over \$7 million. Since only one-quarter of Sales Tax data has been received, no major adjustment to this category is being brought forward at this time. An increase of \$66,000 is recommended, however, to recognize the minimum additional revenue that is expected to be generated from temporary staff in the Finance Department that will be working on the Sales Tax and Business Tax programs.

2006-2007
MID-YEAR BUDGET REVIEW
Section I

STATUS OF GENERAL FUND REVENUES
(CONT'D.)

SALES TAX
(CONT'D.)

The 2006-2007 **Proposition 172 Half-Cent Sales Tax** budget estimate is \$4.4 million, which is 2.4% above the actual 2005-2006 receipts. Year-to-date receipts of \$2.1 million

are 10.3% above the prior year. It is expected that collections in this category will meet or exceed budgeted expectations by year-end.

TRANSIENT OCCUPANCY TAX

Revenue Status				
2006-2007		2005-2006		2006-2007
<u>Budget Estimate</u>	<u>Y.T.D. Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$7,600,000	\$3,180,891	41.9%	35.5%	\$0

The 2006-2007 budget estimate for the General Fund **Transient Occupancy Tax** (TOT) allocation (4.0% of the 10.0% total tax) is \$7.6 million. When the Adopted Budget was developed, it was assumed that growth of 7% over the 2005-2006 year-end estimate would be achieved in 2006-2007. As, however, 2005-2006 ended the year well above that projection, collections can actually decline by approximately 1% to meet the 2006-2007 budgeted estimate.

Current year collections are exceeding budgeted expectations. Year-to-date collections of \$3.2 million are 16.6% above last year's level of \$2.7 million.

The strong revenue collections reflect increases in activity and room rates. Occupancy rates for the first six months of the fiscal year averaged 57.4%, which is above last year's level of 52.7%. Room rates have increased slightly from last year's average of \$112 to \$125. Overall, hotel activity is up 20% from the same period last year.

If current collection trends continue, the 2006-2007 budget estimate will be exceeded by at least \$600,000 at year-end. Given the volatility of this category, however, no adjustment is recommended at this time. Staff will continue to closely monitor this revenue source.

2006-2007
MID-YEAR BUDGET REVIEW
Section I

STATUS OF GENERAL FUND REVENUES
(CONT'D.)

FRANCHISE FEES

Revenue Status				
2006-2007		2005-2006		2006-2007
<u>Budget Estimate</u>	<u>Y.T.D. Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$36,904,000	\$14,947,258	40.5%	39.5%	\$0

Franchise Fees contains the following categories: **Electricity, Gas, Commercial Solid Waste, Cable Television, City-Generated Vehicle Tow and Water.**

The annual reconciliation report from Pacific Gas and Electric (PG&E) concerning **Electricity** and **Gas** gross receipts and the resulting amount of franchise fees owed for calendar year 2006 will not be received until April, and, as a result, firm conclusions cannot be drawn concerning the status of these two revenue accounts until that report is received. Based on currently available gross receipts information, however, it is estimated that Gas Franchise Fees will end the year above the budgeted estimate and Electricity Franchise Fees are expected to meet the budget estimate.

Commercial Solid Waste (CSW) Franchise Fees collections through December of \$4.3 million tracked below the prior year level by 5.6%. Growth of 4.5% is needed to meet the budgeted estimate of \$12.1 million. As reported in previous MFRs, collections in this category are influenced by timing differences in receipts and variances in accruals compared to the previous year. Current revenue tracking

indicates that collections may fall below the budgeted estimate by year-end. Based on current projections from the Environmental Services Department, however, this category would meet its adopted estimate. Staff will continue to closely monitor actual performance and recommend adjustments as necessary.

Cable Television Franchise Fees of \$1.5 million represent only one quarter's collection through December, due to the typical quarter lag in receipts. Year-to-date receipts reflect an 23.2% increase over the prior year, and fees from this category are expected to exceed the budgeted estimate of \$5.0 million by as much as \$300,000.

City-Generated Vehicle Tow Fees of \$561,000 are currently tracking within estimated levels and are expected to meet or slightly exceed the 2006-2007 budget estimate of \$1.2 million by year-end.

Water Franchise Fee revenue through December is currently tracking within estimated levels and is expected to meet the 2006-2007 budget estimate of \$224,000 by year-end.

2006-2007
MID-YEAR BUDGET REVIEW
Section I

**STATUS OF GENERAL FUND REVENUES
(CONT'D.)**

UTILITY TAX

Revenue Status				
2006-2007		2005-2006		2006-2007
<u>Budget Estimate</u>	<u>Y.T.D. Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$76,098,000	\$29,338,000	38.6%	36.5%	\$0

Utility Tax contains the following categories:
Electric, Gas, Water and Telephone.

Electric Utility Tax receipts of \$14.5 million are tracking above the prior year level of \$12.8 million by approximately 13.3% due to accrual adjustments and higher activity in the summer months. To help offset higher bills in the summer months, Pacific Gas and Electric (PG&E) gave a credit of 15% of the July bills for residential customers and 10% of the July bills for business customers that were reflected in the October bills. This program resulted in a \$453,000 reduction in the City's Utility Tax collections. Even with this adjustment, collections are expected to meet or exceed the budget estimate of \$34.3 million by year-end. Growth of only 1% over the prior year collection level is needed to meet this estimate.

Gas Utility Tax receipts of \$2.1 million through December are tracking 9.1% below the prior year. The 2006-2007 Adopted Budget estimate of \$9.7 million allows for a drop of almost 12% from the \$11.0 million collected last year. This drop was based on the assumption that the high natural gas costs experienced last year as a result of the disastrous hurricane season would

not be experienced this year. Collections in the next several months will provide a much better indicator of receipts in this category since over 70% of the revenue in this category is collected in the second half of the year. Collections in this category may also be impacted by the 10/20 Plus Winter Gas Savings Program offered by PG&E that will give customers a credit of up to 20% on their March or April bill if they reduce their nature gas usage in January and February.

Water Utility Tax collections of \$3.3 million through December are tracking below the prior year level of \$3.8 million. This lower collection level, however, was entirely the result of a later booking of the Water Utility Tax receipts this year when compared to the prior year. Collections are currently on target to meet the budgeted estimate of \$7.3 million by year-end. It should be noted, however, that this category is always subject to fluctuations related to the amount of precipitation received, particularly in the spring. Consumption levels over the next several months will determine if adjustments to the revenue estimate will be appropriate before the end of the year.

2006-2007
MID-YEAR BUDGET REVIEW
Section I

**STATUS OF GENERAL FUND REVENUES
(CONT'D.)**

**UTILITY TAX
(CONT'D.)**

Telephone Utility Taxes receipts of \$9.4 million through December are tracking above the prior year level of \$8.6 million as a result of timing differences in the booking of payments. It is currently anticipated that receipts will come close to the budgeted estimate of \$24.8 million by year-end. As mentioned in the MFRs, there remains a potential for legal challenges associated with the Telephone Utility Tax as a

result of the repeal of the Federal Excise Tax, from which the City's Telephone Utility Tax was modeled. At this point, the telephone companies have continued to remit the Telephone Utility Tax payments. This issue is being closely monitored by the Attorney's Office, the Finance Department, and the City Manager's Office.

LICENSES AND PERMITS

Revenue Status				
2006-2007		2005-2006		2006-2007
<u>Budget Estimate</u>	<u>Y.T.D Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$74,660,399	\$39,761,364	53.3%	51.3%	\$0

Licenses and Permits include the following six major groups of revenue: **Business Tax, Cardroom Business Tax, Disposal Facility Tax, Building Permits, Fire Permits** and **Miscellaneous Other Licenses and Permits.**

Business Tax – collections of \$9.6 million through December were tracking above the prior year level of \$8.8 million and are expected to exceed the budgeted estimate of \$12 million by year-end by approximately \$1 million. The City has completed its Business Tax Amnesty Program, which ran from August 2, 2006

through September 29, 2006. The Amnesty Program has generated \$1.3 million from previously outstanding delinquent accounts and new lead accounts.

Cardroom Business Tax – collections of \$5.2 million through December were tracking above the prior year level of \$4.5 million. Based on 2005-2006 collections of \$11.2 million and actual performance through December, this revenue category is expected to significantly exceed the budget estimate of \$9.5 million.

2006-2007
MID-YEAR BUDGET REVIEW
Section I

STATUS OF GENERAL FUND REVENUES
(CONT'D.)

LICENSES AND PERMITS
(CONT'D.)

Disposal Facility Tax (DFT) – Receipts through December of \$5.7 million tracked well above the prior year level of \$4.4 million. In 2005-2006, the Alternate Daily Cover exemption was reinstated and Waste Management was reimbursed for the disputed amount they paid the City in 2003-2004, including interest. Factoring out that reimbursement, collections in 2006-2007 are tracking on par with last year and are expected to meet the budgeted estimate of \$14.7 million by year-end.

Building Permits – Building Permit receipts through December totaled \$10.6 million, or 43.6% of the adopted estimate of \$24.3 million. This collection level is 10% below the prior year level of \$11.8 million. The 2006-2007 estimate was built assuming a continuation of the activity levels of last year, with a net fee reduction of approximately 1%. However, actual 2005-2006 receipts of \$24.0 million were below budgeted levels. Collections through December of this year are tracking well below (10%) projected levels. Revenues in all non-new residential building plan check and all non-new residential trades (plumbing, mechanical and electrical) permits are tracking significantly below expectations. This is partially offset by revenue collections above anticipated levels in the category of new residential building plan check and all new residential trades. In December, residential activity remained moderate for the second consecutive month. For calendar year 2006, new construction reached approximately 3,000 housing units, which was 7.8% above the

2,782 units in 2005. Commercial activity in December was slow. For calendar year 2006, total commercial permit valuation topped \$200 million, a slight increase over the prior year. In December, no new industrial construction permits were issued. For calendar year 2006, however, new industrial construction valuation nearly doubled to a 5-year high.

Although revenue performance through December is well below budgeted levels, collections in January reflect a marked improvement. Permits/plans for a new high rise development in the Downtown were received. As a result, no downward adjustments to the revenue estimates are recommended at this time. The Budget Office, in conjunction with the Planning, Building and Code Enforcement Department, will continue to analyze revenue levels to determine if adjustments to the revenue estimate will be necessary during the year.

As part of this report, additional funding is recommended for the following: the purchase of a Request for Service module for the integrated development program billing systems that includes a survey tool to benchmark to other jurisdictions. The Building Fee Program Reserve will be used to offset these costs (\$92,720).

Fire Permits – collections through December of \$3.3 million were 23.9% below the prior year level of \$4.4 million, primarily due to an amount (\$703,000) included in 2005-2006, which should have been deferred to 2006-2007.

**2006-2007
MID-YEAR BUDGET REVIEW
Section I**

**STATUS OF GENERAL FUND REVENUES
(CONT'D.)**

**LICENSES AND PERMITS
(CONT'D.)**

As a result, Annual Renewable Permits are expected to end 2006-2007 significantly below estimated levels. After adjusting for the prior year booking error, current year Fire Permit revenues are tracking 7.8% below actual prior year receipts. This is due to lower than anticipated receipts related to development activities, including Non-Renewable Permits and Plan Check. Development-related collections through December are 13% below levels received at this time last year. The 2006-2007 budget estimate, however, allows for only a 5% drop from the 2005-2006 actual receipts. While performance is currently not meeting expectations, it is still possible that the overall development-related revenue estimate will be met in 2006-2007. As discussed in the Building Permits section, permits and plans for a new high-rise development in the Downtown were received in January. There are other high-rise projects that may also move forward in 2006-

2007 that could generate a significant amount of fee revenue. The Budget Office and the Fire Department will closely monitor receipts and bring forward budget actions for Council consideration in the future, if necessary.

Additional funding is recommended in this report for the following: training and updated code books associated with the updates to the International Building Code and International Fire Code (\$57,450); third party plan check services to ensure that service delivery goals are met during peak workload demand periods (\$30,000); and a vehicle for a Fire Engineer position (\$19,000). The Fire Fee Program Reserve will be used to offset these costs.

Miscellaneous Other Licenses and Permits – Revenues in this category are tracking within anticipated levels through December.

2006-2007
MID-YEAR BUDGET REVIEW
Section I

STATUS OF GENERAL FUND REVENUES
(CONT'D.)

FINES, FORFEITURES, AND PENALTIES

Revenue Status				
2006-2007		2005-2006		2006-2007
<u>Budget Estimate</u>	<u>Y.T.D. Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$12,536,567	\$6,628,390	52.9%	44.9%	\$0

Fines, Forfeitures, and Penalties include the following groups of revenue: **Parking Fines**, the City's share of **Vehicle Code Fines**, **Administrative Citation Fines and Penalties**, and **Cardroom and Business Tax Penalties**.

Through December, this category has generated \$6.6 million, an increase of 1.8% from last year. Based on collections to date and the 2005-2006

year-end actuals of \$14.5 million, receipts are expected to exceed the budgeted estimate by at least \$1 million.

Collections are tracking higher than budgeted in the vehicle code fines, administrative citations fines and penalties, and business tax penalties sub-categories.

REVENUE FROM THE USE OF MONEY AND PROPERTY

Revenue Status				
2006-2007		2005-2006		2006-2007
<u>Budget Estimate</u>	<u>Y.T.D. Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$10,541,869	\$6,269,334	59.5%	35.6%	\$303,912

The largest source of revenue in this category is **General Fund Interest Earnings**. This category also includes interest earnings from several other funds, and interest on senior staff loans

Overall, receipts of \$6.3 million through December were up 52.3% from the prior year level of \$4.1 million, primarily reflecting increases in interest rates. The budget estimate for the General Fund interest earnings was developed assuming an average cash balance of

2006-2007
MID-YEAR BUDGET REVIEW
Section I

STATUS OF GENERAL FUND REVENUES
(CONT'D.)

REVENUE FROM THE USE OF MONEY AND PROPERTY
(CONT'D.)

\$190.0 million and an average interest rate of 3.5%. Through December, both the average interest yield of 3.75% and the average cash balance of \$223.6 million exceeded the budgeted estimate, generating additional revenue through the first half of the year.

The interest earnings from several other funds are booked into the General Fund. Collections

from these funds are also tracking higher than anticipated due to both the higher interest rates and the higher cash balances.

It is anticipated that collections in this category will end the year well above the budgeted estimate. Based on this higher collection level, an upward adjustment of \$304,000 is recommended in this report.

REVENUE FROM LOCAL AGENCIES

Revenue Status				
2006-2007		2005-2006		2006-2007
Budget Estimate	Y.T.D. Actual	% of Estimate	% of Actual	Proposed Changes
\$46,324,659	\$16,128,554	34.8%	47.0%	\$815,890

The largest entities in this category are: the **Redevelopment Agency**, the **Water Pollution Control Plant** and **Municipal Water System**, and the **Central Fire District**.

Redevelopment Agency reimbursements through December totaled \$5.1 million, which is 31.8% of the budgeted estimate of \$15.9 million. Collections are currently tracking below anticipated levels because the \$3.0 million in reimbursements for City projects to help support the costs of the San Jose BEST was

not received through December. This reimbursement, however, did occur in January.

The Redevelopment Agency also reimburses the City for the Convention Center lease payment budgeted at \$13.7 million for 2006-2007. Neither the lease payment nor the associated reimbursement from the Redevelopment Agency has been processed through December. It is anticipated that the full amount of the estimate will be received by year-end.

**2006-2007
MID-YEAR BUDGET REVIEW
Section I**

**STATUS OF GENERAL FUND REVENUES
(CONT'D.)**

**REVENUE FROM LOCAL AGENCIES
(CONT'D.)**

Payments are also received from the **Water Pollution Control Plant** and the **Municipal Water System** enterprise funds in lieu of various taxes and fees, which the City would receive if these operations were privately owned. Year-to-date collections of \$1.8 million in these categories were 41.8% of the budgeted estimate of \$4.2 million. It is anticipated that the entire budgeted payments will be received by year-end.

Through December, the payments of \$4.3 million from the **Central Fire District** for fire services provided by the City are tracking higher than anticipated at 77.2% of the budgeted estimate of \$5.6 million. The higher collection level is the result of a clean-up payment from 2005-2006 along with higher than expected current year collections.

Overall, the **Other Reimbursements** from various agencies are typically tracking within estimated levels through December.

The following adjustments are recommended in this report to the Revenue from Local Agencies category:

- Increase of \$614,313 to recognize funding from San Jose Unified, Berryessa Union, Santa Clara Unified, and Alum Rock School Districts to provide after school programs at

various sites. Each of these school districts received funding from the State of California After School Education and Safety funds to pay for these services.

- Increase of \$75,000 to reflect reimbursement from the Redevelopment Agency for the conversion of a Redevelopment Agency General Counsel position in the City Attorney's Office to civil service.
- Increase of \$72,276 to recognize additional funding from Santa Clara County for the Senior Nutrition Program. This increase provides various cost-of-living adjustments for existing services and impacts nine nutrition sites.
- Increase of \$44,301 to recognize additional funding from Santa Clara County for the Adult Day Rehabilitation Program (\$42,179) and the Day Socialization Program (\$2,122). This increase provides various cost-of-living adjustments for existing services provided at the Grace Community Center.
- Increase of \$10,000 to recognize a National Children's Alliance Grant for items and activities related to the Child Interview Center.

2006-2007
MID-YEAR BUDGET REVIEW
Section I

STATUS OF GENERAL FUND REVENUES
(CONT'D.)

REVENUE FROM THE STATE OF CALIFORNIA

Revenue Status				
2006-2007		2005-2006		2006-2007
<u>Budget Estimate</u>	<u>Y.T.D. Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$10,122,943	\$8,030,085	79.3%	46.8%	\$323,351

The major State revenues include **Motor Vehicle In-Lieu Fees**, **Airplane In-Lieu Fees**, and **State Grants**.

Motor Vehicle In-Lieu Fee (VLF) revenue through December totaled \$3.2 million, which represents a 38.0% increase from the prior year collection level of \$2.3 million. The higher collection level was due primarily to one-time payments from the State associated with prior year collections in 2004-2005 and 2005-2006 that totaled \$739,000. Collections in this area are expected to exceed the budget estimate of \$5.2 million by approximately \$1.0 million.

Airplane In-Lieu Fees of \$2.1 million through December have already exceeded the budgeted estimate of \$1.0 million. Based on historical collection patterns, receipts in this area are expected to exceed the budget by almost \$1.4 million by year-end.

Major **State Grants** include Department of Education LEARNS Grants (\$1.9 million), Office of Traffic Safety Grants (\$564,000), SB 358 Public Library Grant (\$316,000), and various other miscellaneous grants. The SB 358 Public Library Grant is expected to exceed the

budgeted estimate by \$235,000 based on the latest information received by Library Department staff. It is anticipated that the remaining grants will be received as budgeted.

The following adjustments are recommended in this report to the Revenue from the State category. These grant revenues and the associated expenditures are described in Section III of this document.

- Increase of \$154,402 to recognize funding from the State Homeland Security Program for the Fire Department's Special Operations training on activities such as hazardous materials, urban search and rescue, and weapons of mass destruction.
- Increase of \$59,714 to recognize a grant from the Adult Literacy and Families for Literacy Programs.
- Increase of \$54,933 to recognize an Office of Traffic Safety Checkpoint Mini-Grant that provides funding to conduct Driving Under the Influence checkpoints.
- Increase of \$28,484 to recognize grant funding from the Local Enforcement

2006-2007
MID-YEAR BUDGET REVIEW
Section I

STATUS OF GENERAL FUND REVENUES
(CONT'D.)

REVENUE FROM THE STATE OF CALIFORNIA
(CONT'D.)

Agency (LEA) to be used for landfill enforcement activities.

- Increase of \$11,000 to reflect reimbursement for overtime for the Sergeant who supervises the Rapid Enforcement Allied Computer Team Task Force.
- Increase of \$10,818 to recognize additional funding from the Council on Aging to

provide a program for frail homebound seniors.

- Increase of \$4,000 to recognize grant funding from the State Department of Health Services to provide partial funding for a retrofit to the Bureau of Field Operations Training Center.

REVENUE FROM THE FEDERAL GOVERNMENT

Revenue Status				
2006-2007		2005-2006	2006-2007	
<u>Budget Estimate</u>	<u>Y.T.D. Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$20,070,542	\$1,657,670	8.3%	29.4%	\$1,149,829

Almost all of the revenue in this category is received from federal grant programs. It is currently assumed that the budgeted grant proceeds will be collected by the end of the year according to the grant payment schedules that are in effect.

The largest grants in this category include the following: Urban Area Security Initiative (UASI) Grant (\$11.5 million); Community Oriented Policing Services (COPS) Interoperable Communications Grant (\$3.7 million); California 21st Century Community

Learning Centers – Core Grants (\$881,000); Internet Crimes Against Children (\$400,000); and Metropolitan Medical Strike Team Grant (\$228,000).

The following adjustments are recommended to the Revenue from the Federal Government category to recognize changes in grant funding:

- Increase of \$1.15 million to recognize the 2006 Bay Area Super Urban Area Security Initiative (UASI) allocation for San José. Of this amount, \$1.0 million will be used by the

2006-2007
MID-YEAR BUDGET REVIEW
Section I

STATUS OF GENERAL FUND REVENUES
(CONT'D.)

REVENUE FROM THE FEDERAL GOVERNMENT
(CONT'D.)

- Office of Emergency Services and \$149,000 will be used by the Police Department.
- Increase of \$956 to reflect a rebudget of funds for the Weed and Seed – East San Jose program.

DEPARTMENTAL CHARGES

Revenue Status				
2006-2007		2005-2006		2006-2007
<u>Budget Estimate</u>	<u>Y.T.D. Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$29,455,625	\$14,468,461	49.1%	47.7%	\$205,663

Contained in this revenue category are the various **Fees and Charges** levied to recover costs of services by several City departments. The mid-year status of collections in over 150 different fee types in this category was reviewed.

Police – Police revenues of \$890,000 through December are tracking 20.8% above the prior year level and are expected to meet the budgeted estimate of \$1.4 million by year-end. An upward adjustment of \$184,260 is recommended to recognize additional POST reimbursement for the Emergency Vehicle Operations Course Driver Training.

Public Works – Departmental fee revenue of \$3.6 million through December represents growth of 5.5% from 2005-2006 levels. An

increase of 8.6% to fees was approved in the Adopted Budget to bring revenues and expenditures into alignment. Several revenue categories have performed better than anticipated in the first half of 2006-2007, including residential and non-residential engineering, non-residential materials testing, and miscellaneous revenues. These increases have been partially offset by lower than anticipated collections in several categories, including residential materials testing, traffic reports, and planned development permits. The department feels confident that year-end collections will meet the Adopted Budget estimate of \$7.9 million.

A recommendation to increase the Development Fee Program personal services budget by \$325,000, with a corresponding reduction to the

2006-2007
MID-YEAR BUDGET REVIEW
Section I

STATUS OF GENERAL FUND REVENUES
(CONT'D.)

DEPARTMENTAL CHARGES
(CONT'D.)

Public Works Development Fee Program Earmarked Reserve, is included in this document. This increase is recommended to address carryover workload from 2005-2006 as well as to prevent further decline in the Program's plan review cycle time performance.

The Budget Office, in conjunction with the Public Works Department, will continue to analyze revenue and expenditure levels to determine if any adjustments to the revenue estimate will be necessary before the end of the year. As these are cost recovery fees, any adjustment to the revenue estimate would have to be accompanied by a corresponding adjustment in appropriations or in the fee reserve.

Transportation – Departmental fee revenue of \$615,000 through December is tracking to meet or slightly exceed the budget estimate of \$983,000 by the end of the year.

Library – Overall, departmental fee revenue of \$396,000 through December tracked below anticipated levels due to a timing issue in the booking of fine revenue. After adjusting for this timing difference, Library revenues are tracking within estimated levels and should meet or slightly exceed the budgeted estimate of \$1.1 million by year-end.

Planning, Building and Code Enforcement (PBCE) – The adopted estimate for planning fee revenues is \$6.2 million. Through December, planning revenues of \$2.5 million

tracked below (5.8%) the prior year level of \$2.6 million and approximately 8.4% below anticipated levels. In line with the other development-related fee areas, the 2006-2007 estimate was built assuming a continuation of the activity levels of last year, with the higher fee levels approved by City Council.

With the exception of Public Information Services, the Residential category for Prezoning/Rezoning Planned Development, Development Permit Adjustments, and the Non-Residential category for Tentative Maps, Prezoning/Rezoning Planned Development Permits, Environmental Impact Report, Site Development, and Conditional Use Permit, which are running either at or above anticipated levels, revenues in the other areas are below anticipated levels. Current projections indicate that collections may end the year below the budgeted estimate by as much as \$200,000. No adjustments are recommended at this time as the impact of the changes to the North San Jose Area Development Policy should improve the number of development applications to be submitted. The Budget Office, in conjunction with PBCE will continue to analyze revenue levels to determine if any adjustments to the revenue estimate will be necessary before the end of the year.

Parks, Recreation and Neighborhood Services (PRNS) – Overall, departmental fee revenues of approximately \$4.6 million were tracking at budgeted levels through December.

2006-2007
MID-YEAR BUDGET REVIEW
Section I

STATUS OF GENERAL FUND REVENUES
(CONT'D.)

DEPARTMENTAL CHARGES
(CONT'D.)

Miscellaneous Departmental Charges – This category includes the Solid Waste Enforcement Fee with a budgeted estimate of \$3.1 million, and other miscellaneous fees and legal settlement estimates budgeted at \$713,000. Through December, collections of \$1.9 million in this category are tracking above budgeted estimates due to higher than projected legal

settlement revenue. The Adopted Budget included an estimate of \$150,000 from various legal settlements, while actual collections total \$401,000 through December. The Solid Waste Enforcement Fee receipts of \$1.2 million are tracking within budgeted levels and should come close to the budgeted estimate by year-end.

OTHER REVENUE

Revenue Status				
2006-2007		2005-2006		2006-2007
<u>Budget Estimate</u>	<u>Y.T.D. Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$19,348,863	\$13,216,443	68.3%	21.1%	\$4,878,857

The Other Revenue category contains a number of unrelated revenue sources. The following details the largest revenues budgeted: **HP Pavilion** revenues; **FMC Land Lease** revenue; **Sidewalk Repair Activity**; **Banking Services**; **Coyote Valley Specific Plan**, and **Evergreen East Hills Vision Strategy**.

Other Revenue collections through December of \$13.2 million were \$3.8 million above the prior year level of \$9.2 million. This increase from the prior year primarily reflects revenue of \$2.0 million from Comcast as part of the final

franchise agreement and as a legal settlement; higher SB 90 Reimbursements for State-mandated programs; higher payments associated with the Evergreen Strategy; and higher lease payments from the Airport for the FMC property. These higher collections were partially offset by lower payments associated with the Coyote Valley Specific Plan.

When comparing the current year performance to the budgeted estimates, collections are expected to exceed the budget due to higher than projected SB 90 reimbursements.

2006-2007
MID-YEAR BUDGET REVIEW
Section I

STATUS OF GENERAL FUND REVENUES
(CONT'D.)

OTHER REVENUE
(CONT'D.)

Following is a discussion of the major sub-categories in the Other Revenue category:

In the current year, The City has received \$3.6 million in **HP Pavilion Rental, Parking, Suite, and Naming** revenue, which is consistent with the current year budget estimate.

FMC Land Lease revenue is received from the Airport in an amount sufficient to cover the debt service payments made from the General Fund. Through December, \$962,000 of the \$4.7 million budgeted amount has been received. Based on revised debt service information from Finance, an upward adjustment of \$140,000 to this revenue estimate and the associated General Fund debt service appropriation is recommended to cover the anticipated costs through the remainder of the year.

Sidewalk Repair Activity revenue is received when the City performs sidewalk repair services for non-owner occupied residences and the property owners reimburse the City for those costs. Through December, Sidewalk Repair revenue of \$120,000 was 30.1% of the adopted estimate. Activity in this category typically increases in the second half of the year, but collections may still fall short of the budgeted estimate of \$400,000. Any shortfall, however, should be offset by lower expenditures.

Banking Services revenue of \$351,000 tracked at 42.8% of the budgeted estimate of \$820,000. This revenue category is still on track to meet

the budgeted level; however, any variance in this revenue would be offset by corresponding variance in related expenditures.

Through December, \$1.6 million of the \$4.4 million budgeted revenue for the **Coyote Valley Specific Plan** has been received. For the **Evergreen East Hills Vision Strategy**, \$1.0 million of the \$1.4 million budgeted has been received. Revenues in these categories are received after expenditures occur.

SB 90 Reimbursements from the State for State-mandated programs were budgeted at only \$150,000 for 2006-2007 based on the experience in recent years where the State discontinued many of these payments due to budget constraints. Actual collections through December totaled \$2.4 million.

Approximately half of the amount received (\$1.27 million) was reimbursement for jail booking fees paid in 2005-2006. The City had not included this reimbursement in the budget because the State did not determine that this reimbursement would be made to various jurisdictions until after the City had prepared its 2006-2007 budget. On the expenditure side, an upward adjustment of \$888,000 to the jail booking fees appropriation is recommended to cover the higher than budgeted jail booking fees charged by the County for 2006-2007. The City was recently notified that the County has significantly increased the amount that San José is charged for this service this year.

2006-2007
MID-YEAR BUDGET REVIEW
Section I

STATUS OF GENERAL FUND REVENUES
(CONT'D.)

OTHER REVENUE
(CONT'D.)

The City has also received an additional \$1.2 million as reimbursement for other various State-mandated programs. Of this amount, \$463,000 was reimbursement of mandated costs related to the amount of time that public animal shelters are required to house domestic animals. It is recommended that these funds be allocated to address various capital and operational needs at the Animal Care Center, as discussed in Section III of this document.

Through December, \$2.0 million was booked into the Other Revenue category to reflect the payment from **Comcast** as part of the renegotiated franchise agreement (\$1.0 million) and as a litigation settlement (\$1.0 million). It is anticipated that an additional \$1.75 million will be received in the second half of this year as part of the new franchise agreement to provide funds for capital expenditures related to Public, Educational, and Government (PEG) operations. After 2006-2007, approximately \$1.0 million will be received annually from Comcast to support capital expenditures. Since these funds were not budgeted as part of the annual budget process, it is recommended that the \$3.75 million from Comcast be allocated to the PEG operations and capital costs as described in Section III of this report.

Through December, revenue from the **Sale of Surplus Property** totaled \$493,000, exceeding the budget estimate of \$100,000. Per City

Council Policy, it is recommended in this report that the additional \$393,000 above the budget estimate be allocated to the Economic Uncertainty Reserve.

As described in Section III of this report, several actions are recommended to recognize revenue from **various cultural events** and from **private developers for public art projects**:

- Increase of \$45,000 to recognize funds from private developers to support marketing services for an arts festival in the Martha Gardens/Spartan Keyes area.
- Increase of \$37,000 to recognize funds from private developers to administer a public art project at Block 3 in downtown San Jose.
- Increase of \$21,851 that has been received from various cultural events and allocate those funds to the Office of Economic Development as reimbursement for services.
- Increase of \$29,006 to recognize revenue received as payment for the hospitality room at the San Jose Grant Prix event. These funds are recommended to be allocated to the Office of Economic Development as reimbursement for services provided (\$21,608) and to the Sports Opportunity Fund (\$7,398).

2006-2007
MID-YEAR BUDGET REVIEW
Section I

STATUS OF GENERAL FUND REVENUES
(CONT'D.)

TRANSFERS AND REIMBURSEMENTS

Revenue Status				
2006-2007		2005-2006		2006-2007
<u>Budget Estimate</u>	<u>Y.T.D. Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$96,316,271	\$51,542,483	53.5%	60.2%	\$4,593,371

The following are sources of revenue in this category: reimbursements to the General Fund for **Overhead** costs, revenue received as **Transfers** from other City funds, and **Reimbursements** for services rendered.

Overhead Reimbursements – Overhead associated with operating funds is currently budgeted at \$14.1 million. Overhead associated with special and capital funds is currently budgeted at \$14.7 million. As part of this document, a net upward adjustment of \$2.9 million is recommended to reflect the impact of the final 2006-2007 overhead rates that were released after the adoption of the budget. Due to staffing shortages, the Finance Department was not able to deliver overhead rates in time for inclusion in the budget development process. In the absence of updated rates, the 2005-2006 rates were used to estimate the overhead due from other funds. Corresponding adjustments in each of the impacted funds are also recommended in this document.

Transfers – This category includes \$49.9 million in various transfers. Through December

transfers of \$27.1 million are tracking within estimated levels and are expected to end the year as budgeted. Included in this report is an upward adjustment of \$1.6 million to reflect the increased reimbursement from the Airport for additional Police overtime associated with the Orange Alert. Transfers from the Storm Drainage Fee Fund (\$29,090) and the Sanitary Sewer Connection Fee Fund (\$16,630) are also recommended to reflect the reimbursement for costs associated with these funds that were booked in to the Public Works Fee Program in 2005-2006. These funds will be credited against the Public Works Fee Reserve.

Reimbursements for Services – The budget estimate for this category is \$17.6 million, of which \$17.0 million is expected to be generated from the three **Gas Tax Funds**. Gas Tax collections of \$4.5 million tracked below the prior year level of \$6.4 million because the December receipts were not reflected this year. Once this timing difference is taken into account, collections are tracking as anticipated. Collections in this category are expected to meet the budget estimate by year-end.

**2006-2007
MID-YEAR BUDGET REVIEW
Section I**

**STATUS OF GENERAL FUND REVENUES
(CONT'D.)**

CONCLUSION

A comprehensive review of all General Fund revenue accounts was performed based upon receipts through the first six months of the year. As described, a number of revenue categories are tracking above budgeted levels and it is anticipated that total collections should end the year above the budgeted estimate. Included in this document are upward adjustments to the General Fund revenue estimates totaling \$12.3 million to fund recommended actions included in the Mid-Year Budget and to recognize various grants and reimbursements.

The Preliminary 2008-2012 General Fund Forecast assumed that a total of \$25.0 million would be available from excess revenues, expenditure savings and the liquidation of

carryover encumbrances in 2006-2007 for use in 2007-2008. Consistent with this assumption used to develop the Preliminary Forecast, it is anticipated that additional upward adjustments to the revenue estimates will be possible by year-end. The estimates for this year and 2007-2008 will be updated as part of the final 2008-2012 General Fund Forecast due to be released in February.

As always, staff will continue to closely monitor our current year financial status and report to the City Council any significant developments through the Monthly Financial Reports. The January/February Monthly Financial Report will be brought to the Public Safety, Finance and Strategic Support Committee in April.

2006-2007 MID-YEAR BUDGET REVIEW

Section I

STATUS OF GENERAL FUND EXPENDITURES

Overview

General Fund expenditures through December totaled \$354.8 million. This represents an increase of \$37.6 million, or 11.9%, from the December 2005 level of \$317.1 million. Encumbrances totaling \$39.3 million were also \$3.7 million (10.3%) above the December 2005 level of \$35.6 million. Expenditures and encumbrances through December constituted 45.0% of the total 2006-2007 modified budgeted use of funds amount (excluding

reserves) of \$874.9 million. This was generally consistent with the 45.3% experienced in last year's budget at this time. Overall, expenditures are tracking as anticipated and are expected to end the year within budget.

The following chart displays the year-to-date expenditures (excluding encumbrances) compared to the prior year, by category.

**2006-2007 General Fund Expenditures through December
(\$ in Thousands)**

Category	Current Budget	Y.T.D. Actual	% of Budget	Prior Year % of Budget
Personal Services	556,547	250,333	45.0%	45.9%
Non-Personal/Equipment	103,811	31,993	30.8%	31.0%
Other Departmental	11,387	4,454	39.1%	43.8%
City-Wide Expenses	140,606	33,789	24.0%	31.2%
Capital Contributions	33,367	5,242	15.7%	13.7%
Transfers	29,179	28,961	99.3%	61.1%
Reserves	128,510	-	0.0%	0.0%
Total	1,003,407	354,772	35.4%	36.1%

Departmental Expenditures

Personal Services costs represent the largest single expense category for the City. These costs accounted for almost 71% of the expenditures to date. Through December, Personal Services expenditures for all City departments totaled 45.0% of the current modified budget, a slight decrease from last year's level of 45.9%, and slightly below budgeted expectations of 46.2%.

Non-Personal/Equipment expenditures are also tracking within anticipated levels with 30.8% expended through December. In addition to the funds actually expended, \$39.2 million was encumbered, bringing the total amount of funding committed to \$71.2 million, or 68.6% of the budget. These expenditures are expected to remain within budget for all departments.

2006-2007
MID-YEAR BUDGET REVIEW
Section I

STATUS OF GENERAL FUND EXPENDITURES
(CONT'D.)

Overview (Cont'd.)

Departmental Expenditures (Cont'd.)

The Other Departmental category includes the majority of the budget for the Mayor and City Council, Library Grants, and Parks, Recreation and Neighborhood Services Fee Activities. Other Departmental Expenditures totaled \$4.5 million or 39.1% of the budget. With encumbrances, the total amount committed increases slightly to \$4.6 million, or 40.3% of the budget.

Taking into account the \$4.2 million to be removed from departmental appropriations as part of the Cost Management Plan implementation (discussed elsewhere in this report), it is anticipated that departments will expend nearly all of their Personal Services and Non-Personal/Equipment allocations by the end of the year, but on an overall basis remain within budget.

Non-Departmental Expenditures

Through December, 24.0% of City-Wide Expenses budget has been expended. With encumbrances, however, the total amount of funding committed equals 33.3% of the budget.

Within City-Wide Expenses, the Community and Economic Development, Public Safety, and Strategic Support City Service Area categories represent the largest portion of funding. For the first six months of the year, these three categories are 28.3%, 54.4%, and 25.7% committed, respectively. The expenditure tracking for these City-Wide allocations can

vary significantly depending on payment schedules and the timing of projects. In some instances, the appropriations will not be fully expended by year-end because of the multi-year nature of some of these larger projects. Most of those savings will need to be rebudgeted to 2007-2008.

The Workers' Compensation Claims appropriation is a major component of the City-Wide Expenses category, Strategic Support. For the first half of the year, this appropriation tracked slightly below anticipated levels. Only 36.2% of the appropriation was expended through December reflecting a decrease in the number of claims experienced.

For several years now, Workers' Compensation Claims has experienced lower than budgeted expenditures, reflecting the impact of both City-initiated efforts and State-initiated program reforms. If current expenditure levels continue, there should be savings from budget in this category at year-end.

General Liability Claims, another component of City-Wide Expenses, Strategic Support, is also tracking slightly below anticipated levels during the first six months of the year. A total of 16.4% of the appropriation has been expended or encumbered. Expenditures in this category are traditionally difficult to predict, though, given the nature of litigation. We will continue to monitor this appropriation as the year progresses.

2006-2007
MID-YEAR BUDGET REVIEW
Section I

**STATUS OF GENERAL FUND EXPENDITURES
(CONT'D.)**

Overview (Cont'd.)

Non-Departmental Expenditures (Cont'd.)

The remaining City-Wide Expenses categories, Environmental & Utility Services, Neighborhood Services, and Transportation and Aviation Services, tracked at 59.3%, 46.8% and 35.2% committed, respectively, at mid-year. The commitment in Environmental and Utility Services category appears high, but actually reflects only a timing issue – the IDC Garbage Disposal Fees is a contractual obligation with the City that tends to be paid at the beginning of the year. It is still anticipated that the expenditure items within Environmental and Utility Services will end the year within budgeted levels.

Through December, General Fund Capital expenditures totaled \$5.24 million and encumbrances totaled \$2.83 million, bringing the amount committed to \$8.1 million, or 24.2% of the budget. It is anticipated that almost all of the budgeted amount will be expended or rebudgeted to 2007-2008 to complete various capital projects.

The Transfers category is 99.3% expended through December as anticipated. Almost all of the transfers are processed at the beginning of the year. There are no expenditures in the Reserves category because expenditures can not be charged directly to a reserve.

Discussion of Selected General Fund Departments and Major Variances

Expenditure Status (\$ in thousands)		
<u>Department</u>	<u>2006-2007 Budget</u>	<u>Y.T.D. Actual</u>
Fire	\$129,388	\$58,307

Overall, expenditures for the Fire Department expenditures were tracking slightly below estimated levels through December.

Personal services expenditures of \$55.8 million through December were 45.6% expended, which is slightly below the par level of 46.2%. Salary and benefit expenditures tracked at par level while overtime expenditures tracked at

lower than estimated levels at 42.7%. Expenditures are, however, expected to increase in the second half of the year with the January Firefighter Recruit Academy and the Fire Engineer Academy as well as the uniform allowance payments. It is still anticipated that personal services expenditures will end the year within budgeted levels.

2006-2007
MID-YEAR BUDGET REVIEW
Section I

**STATUS OF GENERAL FUND EXPENDITURES
(CONT'D.)**

Discussion of Selected General Fund Departments and Major Variances (Cont'd.)

Through December, the Fire Department had a total of 252 filled paramedics (158 front-line, 4 Supervisors, and 90 support). When compared to the 147 front line medics that are necessary to fully staff all apparatus, this represents the highest level of filled paramedics in the Department's history. Of the 25 Firefighters that graduated from the April 2006 Academy in August, 23 Firefighters completed their paramedic accreditation through December. A 17-week Firefighter/Paramedic Academy consisting of 29 recruits is scheduled to begin in January 2007. The Department projects it will be able to maintain its target staffing level of 147 primary Firefighter/Paramedics.

The Department's Non-Personal/Equipment budget of \$7.1 million was 55.0% expended or encumbered through December and is expected to end the year within the budgeted allocation.

As part of this document, development-related additions are recommended to provide consultant services to conduct plan checks and inspections during peak service demand periods; to provide training and materials associated with the updated International Building Code and International Fire Code; and to provide a vehicle for a Fire Engineer position. There are also grant-related additions.

Expenditure Status (\$ in thousands)		
<u>Department</u>	<u>2006-2007 Budget</u>	<u>Y.T.D. Actual</u>
Police	\$259,659	\$115,489

On an overall basis, the Police Department expenditures continue to track within estimated levels.

Personal Services expenditures through December totaled \$108.7 million or 45.6% of the budget, which is slightly below the par level of 46.2%. Overtime expenditures through December, however, tracked slightly above anticipated levels at \$3.8 million or 48.3% of the budgeted level due to increased overtime expenditures at the Airport related to the "high" security threat level or "Orange Alert" advisory issued by the federal Department of Homeland

Security (budgeted levels assume a "yellow" or "elevated" security threat level).

Overtime expenditures through December related to the increased security threat level totaled \$639,000. It is anticipated that additional overtime costs of approximately \$1.0 million may be incurred in the second half of the year. An increase of \$1.6 million to the overtime budget is recommended in this report to cover the additional cost this year. A corresponding increase to the reimbursement to the General Fund from the Airport Operating Fund is also recommended in this document.

2006-2007
MID-YEAR BUDGET REVIEW
Section I

STATUS OF GENERAL FUND EXPENDITURES
(CONT'D.)

Discussion of Selected General Fund Departments and Major Variances (Cont'd.)

To partially offset this cost for the Airport, the Police Department, in conjunction with the Office of Emergency Services, is pursuing federal grant funding options. A total of \$553,311 has already been received through Urban Area Security Initiative (UASI) grant funds to offset "Orange Alert" overtime costs through November.

The Budget Office and Police Department will continue to monitor Personal Services to ensure expenditures are within approved appropriations by year-end.

In the Sworn Recruitment and Training Program, the Police Department graduated 34 Police recruits from the July 2006 Academy, with officers expected to be street-ready in April 2007. In addition, 50 Police recruits were hired for the January 2007 Recruit Academy. These Police recruits will become street-ready in October 2007.

The compensatory time balance at the end of December 2006 was 230,111 hours for sworn personnel. This represents a slight decrease (of less than 1%) from the November 2006 balance of 230,918 but a 9.6% increase from the December 2005 balance of 209,935 hours. A number of factors are contributing to this increase, including the need to immediately

respond to specific types of crimes such as homicides and the need to backfill positions where the officers are not yet street-ready. The Police Department's sworn compensatory time reduction program for personnel with balances over 240 hours is expected to limit growth for the next quarter. A rebudget of \$850,000 in overtime funds approved as part of the 2005-2006 Annual Report should enable the Police Department to contain compensatory time growth in the current fiscal year. Staff will continue to monitor this balance throughout the fiscal year.

A total of 46.1% of the Department's Non-Personal/Equipment budget was expended or encumbered through December. It is estimated that the Department will end the year within its Non-Personal/Equipment budget.

In addition to the overtime adjustment for the increased security at the Airport, Mid-Year Budget actions are recommended to address funding needs in the Police Department. These actions, which are described in Section III of this report, would provide additional funding for ammunition and body armor, Field Training Officer premium pay, and funding to support various grant and reimbursement activities.

**2006-2007
MID-YEAR BUDGET REVIEW
Section I**

**STATUS OF GENERAL FUND EXPENDITURES
(CONT'D.)**

Discussion of Selected General Fund Departments and Major Variances (Cont'd.)

Expenditure Status (\$ in thousands)		
<u>Department</u>	<u>2006-2007 Budget</u>	<u>Y.T.D. Actual</u>
Public Works	\$10,188	\$4,729

Overall, Public Works expenditures are tracking within budgeted levels through December. However, expenditures in the personal services category, both in the Development Fee Program and non-reimbursable appropriations, are tracking above anticipated levels. These overages are offset by savings in the non-personal/equipment category. Departmental expenditures for Personal Services totaled \$3.5 million, or 49.7% of the budget (compared to the par level of 46.2%). The primary reason for the overage appears to be positions charging in the General Fund that were budgeted to other funding sources. The Department has been working to move inappropriate charges out of the General Fund. In addition, the Department has incurred costs for services that are not currently funded. A recommendation to increase the non-reimbursable appropriation by

\$101,000 is included in this document to fund flood management and public counter inquiry services which were inadvertently omitted from the Adopted Budget. There was no dedicated funding source for these services that continue to be provided by the department. The Public Works Department and the Budget Office will closely monitor the appropriations for the remainder of the year. With the additional personal services funding recommended in this report, combined with the expense corrections, it is fully expected that the department will remain within its budgeted appropriation by year-end.

Non-Personal/Equipment expenditures, are tracking below budgeted levels.

**2006-2007
MID-YEAR BUDGET REVIEW
Section I**

**STATUS OF GENERAL FUND EXPENDITURES
(CONT'D.)**

CONTINGENCY RESERVE

Through December, the General Fund Contingency Reserve level was \$28,039,462, up by \$1,034,462 from the 2006-2007 Adopted Budget level of \$27,005,000. The following revisions to the Contingency Reserve were approved through December:

- A decrease of \$15,000 to increase funding for the City of San José Volunteer Celebration.
- A decrease of \$100,000 to establish an appropriation for the Greater Terrace Drive Soil Testing Project.
- An increase of \$1,149,462 to bring the Contingency Reserve to the City Council policy level of 3% of the budget based on the Annual Report actions.